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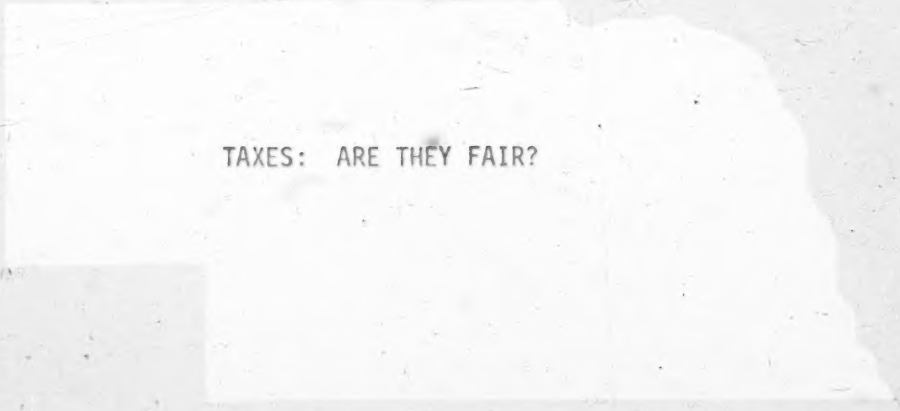

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NEBRASKA ANNUAL SOCIAL INDICATORS SURVEY

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NASIS-79 #2

TAXES: ARE THEY FAIR?

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Price: $ .50

The Nebraska Annual Social Indicators Survey

Lynn K. White: 1979 Study Director

The findings in this report are based on data collected in the third Nebraska Annual Social Indicators Survey (NASIS). This survey is part of an on-going study of the quality of life in Nebraska conducted by the Bureau of Sociological Research at the University of Nebraska-Lincoln.

In 1979 a representative sample of 1882 Nebraskans eighteen years of age or older living in households was interviewed by telephone. The respondents to the 1979 survey are part of a panel originally selected and interviewed in 1977 and 1978. They will be re-interviewed every two years in order to provide information on changing quality of life. The interviews averaged approximately 40 minutes and included questions about environment, health, crime, political attitudes, occupation, education, family life and other matters reflecting the quality of life experienced in the state. For the entire sample, 95 out of 100 times the percentages computed from the items asked on the survey are likely to be accurate to within plus or minus 2.3 percent of the figure that would have been obtained if each adult in Nebraska had been surveyed. This is an estimate of maximum error and for most items the percentages are likely to be even more accurate.

The data gathered by NASIS are used by a wide variety of State and local government agencies for policy and program planning and by faculty and students at the University of Nebraska and other colleges for research. No information identifying any respondent is released to any users and the strict confidentiality of individual respondents is rigidly enforced. While the final responsibility for the organization and structure of the survey and for reports produced under its name rests with the Bureau of Sociological Research, public agencies and University departments play an integral part in planning the survey through an Advisory Committee. Public organizations interested in membership on the Advisory Committee should contact the NASIS Study Director.

Funding for NASIS comes from the University of Nebraska, The Bureau of Sociological Research, and State and local agencies which buy items and data analysis from the survey.

The NASIS surveys are repeated each year to measure changes in the quality of life in Nebraska. While there is a core of questions which is included every year, each survey has a large component of unique items which address specific topical issues. Plans for future years include interviewing a new sample of Nebraskans in 1980 as well as continuing to re-interview the 1977 panel every two years to assess changes in their lives. Additional detail on the NASIS surveys regarding use of the survey data or cost of purchasing items on future surveys can be obtained by contacting Lynn K. White, NASIS Study Director, at the Bureau of Sociological Research or by sending for a copy of the 1980 NASIS Prospectus.

The question of taxation is one of the hottest issues across the nation. In the wake of Proposition 13 in California, a number of states have passed spending lids or taxing limitations going beyond those previously in existence. In Nebraska, as elsewhere, many citizens have demanded more controls on the powers of government to tax. Thus, though a constitutional amendment to limit spending failed, local governments are now confined to a spending increase of only 7 percent per year from local revenues.

Alongside this renewed demand for curtailment of taxes, however, is the increased demand for government services--from demands for better streets and more police protection at the local level, to more state aid for schools and programs for agricultural exports at the state level, to a variety of demands for federal expenditures for health care, energy research and defense, for example.

These kinds of contradictory signals force public officials to examine carefully citizen opinion on both taxes and on program alternatives. This brief report will focus on what Nebraskans think about taxes. We focus specifically on the three major taxes that Nebraskans pay--the sales tax, income tax, and property tax.

In order to understand how Nebraskans view the fairness of their taxes, two questions were included on the 1979 Nebraska Annual Social Indicators Survey. This is a survey of 1800 adults, from all parts of the State, who responded to telephone interviews conducted during the Spring of 1979. The questions are as follows: "Nebraskans pay three State and local taxes, property, income, and sales. Of these which do you think is the most fair?" The second question asked is: "Which of these taxes do you think is least fair?"

Most of our sample of Nebraskans believed that the sales tax was the fairest tax (Table 1). Fifty-two percent so indicated, while 23 percent thought the income tax was most fair and only fourteen percent believed the property tax was the most fair. The low standing of the property tax is hardly surprising, given the almost

continuous public debate over equalization and assessment of this tax during the past several years. It is perhaps more surprising that such a large number thought the sales tax was the fairest tax. Economists generally find the sales tax to be more regressive than the income tax; that is, lower income people pay a greater percentage of their income in sales taxes than do upper income people. Thus, the sales tax hits lower and lower middle income people harder than it does upper middle and upper income people. On the other hand, it may be that the sales tax is perceived as fairest because it is paid in such little pieces. While the income tax takes a big chunk out of most people's salaries every month and then hits many people particularly hard on April 15, and the property tax is paid in two large installments each year, the sales tax is paid in nickels, dimes and dollars every day. Unless one is buying a very expensive item, the sales tax, while painful, is not nearly as noticeable as the other two taxes. Most people probably have no idea how much or little sales tax they pay.

Responses to the question as to which tax was least fair are, as expected, reversals of the previous question. A near majority, fifty percent, believe the property tax is least fair, and about equal numbers (21 and 18 percent respectively) believe the income and sales tax least fair.

Part of the reason that the property tax is thought least fair may be the perceived inequalities in the tax assessment. Everyone knows someone who has a bigger and fancier house, for example, but pays less tax; one is likely to remember that instance, but forget about those with less expensive houses who pay more. And assessments can sometimes be unfair. Tax assessors are usually, though not always, amateurs, often without skilled personnel to help them make complex decisions about property values. This is inevitably reflected in discrepancies in valuation. Then, too, property owners are taxed to support services which benefit non-property owners. This might be a source of annoyance for some. Still others who are renters may resent the property tax because they pay it

through their rent, but yet get no income tax benefit from it. Farmers frequently resent the property tax because it taxes the land from which they draw their living in a way that the livelihood of the attorney, wage earner, or professor is not taxed. All of these sources of antagonism, then, probably combine to form hostility toward the tax on the part of many segments of the population.

We next turn to see if, in fact, negative attitudes toward the property tax and positive attitudes toward the sales tax are spread evenly through the population or are found more often among members of some groups than others. One finding was not surprising. That is, people paying the most property tax are most likely to think it unfair (Table 2). Only 40% of those paying $100 or less, but 73% of those paying more than $1200 believe it unfair. Thus beliefs about the tax are closely tied to one's self-interest. Conversely, one is less likely to believe that sales and income taxes are least fair as one's property tax increases.

Since property taxes directly support public schools while the other taxes do so indirectly, it might be thought that parents of school-age children would be more supportive of the property tax than others. This is not so; differences between parents of school-age children and those who are not parents are negligible. Neither are there differences between those who consider the quality of the schools very good and those who feel the quality is less than very good. Thus perception of fairness of property taxes is not related to perceptions of the quality of service one is getting with the tax money.

We also thought that perception of tax fairness might be related to what individuals thought about the quality of their state government in general. However, evaluations of the Governor and State agencies were also not a factor that distinguished between people who felt that property tax was the least fair and those who cited other taxes less fair. Those satisfied with the Governor and various State agnecies were just as likely as the dissatisfied to evaluate property tax to be the least fair of the three taxes. On the other hand, those people who were

more politically active, as measured by whether they voted, tended to view the property tax more negatively than did those who are less active--the non-voters.

Finally, we examined the perception of fairness of the property tax in light of two demographic characteristics of our sample: farm-nonfarm occupation and income. First, farmers are more likely to see the property tax as unfair than are non-farmers. On the other hand, non-farmers are almost twice as likely as farmers to see the sales tax as least fair. Income is also related to perception of property tax fairness. The very low income and those making over $12,500 are more likely to see the tax as unfair than those making $7,500 to $12,499. The group most likely to see property taxes as unfair are those making from $20,000 to $35,000.

In sum, we have found that Nebraskans see their sales tax as the most fair, the property tax as the least fair. Our questions were deliberately framed in a general manner; fairness to one person may mean that he (or she) has to pay little. To another individual, fairness may mean that the rich have to pay more than the poor. To still another, fairness may mean that everyone has to pay about the same. Our analyses indicate that the perceptions of fairness at least of the property tax, appears to be related to the amount one has to pay, but is little related to perceptions of the quality of service one gets in return. Our general impression (and this is only speculation) is that perceptions of the fairness of taxes is directly related to the knowledge people have about what they pay; most people know (or think they do) how much property tax they pay, have a vague idea of their total income tax, and hardly any appreciation at all of the amount of their sales tax. Thus public support for taxes is probably related inversely to knowledge about them. This is hardly surprising, yet it is a somewhat discouraging state of affairs because it is an incentive for public officials to enact less visible taxes -- the value added tax is a case in point. Service charges for use of public facilities are another example of a tax which

is less visible than others. Yet these taxes, while politically attractive, may not be the fairest in terms of taxing those with the most ability to pay or even in terms of other ostensible concerns for a fair tax system.

TABLE 1.

NEBRASKANS VIEW OF THE FAIRNESS OF THREE STATE AND LOCAL TAXES

	Most Fair	Least Fair
Property Tax	14%	50%
Sales Tax	52	18
Income Tax	23	21
Don't Know	11	11
Total	100%	100%

TABLE 2.

PERCENT WHO BELIEVE TAX LEAST FAIR

	Property	Income	Sales	
Property Tax Paid				
Less than $180	40	33	27	(80)
$180 - $399	55	25	20	(191)
$400 - $699	56	21	23	(275)
$700 - $1199	69	18	13	(209)
$1200+	73	16	11	(113)
Income				
Less than $7,499	58	25	17	(177)
$7,500 - $12,499	47	33	20	(280)
$12,500 - $19,999	56	23	21	(346)
$20,000 - $34,999	63	20	17	(408)
$35,000+	54	22	24	(127)
School-Age Children in Household				
Yes	55	25	20	(605)
No	58	21	21	(1056)
Percent Who Judge Quality of Schools To Be				
Very Good	58	21	21	(650)
Less Than Very Good	56	26	18	(794)
Performance of Governor and State Agencies				
Satisfied	54	25	21	(944)
Dissatisfied	58	22	20	(529)
Place of Residence				
Farm	66	22	12	(167)
Non-Farm	54	24	22	(1391)
Voted Within Last Two Years				
Yes	58	22	19	(1254)
No	50	27	23	(403)

List of reports already released using data gathered in the 1979 Nebraska Annual Social Indicators Survey. These may be purchased at the indicated price from the Bureau of Sociological Research of the University of Nebraska-Lincoln.

Report Number	Title
1	Designs, Procedures, Instruments and Forms for the 1979 NASIS. Lynn K. White. Price: $7.50.

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